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THE EFFECTS OF EMPLOYEE OWNERSHIP
UPON WORK ATTITUDES

A thesis presented in partial fulfilment of
the requirements for the degree of
Master of Arts in Psychology
at Massey University

Tim Cotter
1994
ABSTRACT

The present study explores the role of employee ownership in increasing positive work attitudes in New Zealand companies. In particular, the study examines the extent to which employees view their stake in the company as a purely financial investment as opposed to an opportunity to assume more control and influence within the organisation. Questionnaires regarding attitudes toward the company and to the company share scheme were completed by 156 subjects from two organisations, one a small goods company, and the other a financial institution. Participants who owned shares in their company (n = 33) reported higher organisational commitment and job satisfaction, and lower turnover intention, than those who did not own shares (n = 123). However, none of the differences between owners and non-owners were found to be significant. Those who did hold shares showed a significant positive correlation between share scheme satisfaction and organisational commitment and job satisfaction, and a significant negative correlation between scheme satisfaction and turnover intention. Shareholders who were satisfied with the financial return on their investment were more likely to want to buy more shares if offered them in the near future. The results indicate that, when employees are given no extra influence over their job as a result of owning shares in the company, the financial benefits gained from ownership are not sufficient to create more positive attitudes toward the organisation. It is concluded that successful share ownership schemes require a corresponding increase in employee decision-making participation. Findings are contrasted with those of overseas studies and recommendations are made for longitudinal research which addresses the effects of employee ownership upon organisational culture and power distribution.
Thanks to my supervisors, Ross St George and Paul Toulson, for their wisdom and guidance.

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CHAPTER 1. INTRODUCTION TO EMPLOYEE SHARE OWNERSHIP.

Much of the attention of occupational psychologists in recent years has focused upon maximising employee’s commitment to and satisfaction with their job and their employer (Reichers, 1985; Mathieu & Zajac, 1990). In particular, efforts have been made to align the goals and values of the organisation with those of the employee. An increasingly popular strategy has been the introduction of employee share ownership. The rationale for this is that by providing employees with the opportunity to claim a stake in their company, the organisation encourages a more cooperative relationship, with the intention that employees will exert more effort towards the company’s success if they know that they are entitled to a share of that success. Benefits from the organisations point of view include increased organisational commitment and lower employee turnover.

On a larger scale, employee ownership has important societal implications, through it’s encouragement of capitalist participation and the sharing of profits among the work force. By investing in their company, more people can become skilled in business and more able to manage their own money and therefore meet their personal economic goals.

Research into employee ownership has revealed mixed results. Although several studies have found that employee owners have more positive attitudes toward their company than their non-owner counterparts (Rosen, Klein & Young, 1986; Buchko, 1992a, 1992b), it is uncertain under what circumstances employee ownership achieves the best results. Research on New Zealand organisations is very limited, consisting of the work of Firth, Keef and Mear (1987) and some comment by Clark (1988).

The present study compares the attitudes of employee owners with those of non-owners in two large New Zealand companies, then focuses on the factors which contribute to employee satisfaction with the company share scheme. The study aims to give an overview of the specific effects of employee ownership upon the organisational commitment, job satisfaction and turnover intention, while identifying the facets of
employee ownership which have the greatest effect upon the attitudes of employee owners. Perhaps most importantly, the present study draws comparisons between employee ownership as it exists overseas, and the New Zealand experience of employee ownership.

**Types of Employee Ownership.**

**Employee Stock Ownership Plans.**
The most common form of employee ownership in the US is the Employee Stock Ownership Plan (ESOP) (Rosen et al, 1986). The ESOP involves a company setting up a trust for its workers, into which it makes regular contributions of shares or cash to buy shares from existing owners. Each eligible employee has an account in the trust, usually proportional to his/her salary. The stock remains in the trust until the employee ceases employment in the company. The longer the employee stays in the company, the more rights s/he has to the stock in the account. Through a process known as vesting, the employee gradually gains rights to the stock in the account, at an annual rate determined by tenure. For example, if an employee left the company after five years s/he could take 30% of the stock in his/her account. The non-vested stock is returned to the trust and redistributed to the rest of the shareholders. Upon receipt of their shares, employees can either hold onto them or sell them. The main advantage of the ESOP scheme is that there is a minimum of risk involved for the employee. The shares which are received are seen as a bonus and no payment is made by the employee.

In the US, several pieces of legislation were passed in the 1970’s which provided tax breaks for companies’ contributions to share accounts. In this way, for every dollar contributed to a company share ownership account, around ten cents is saved in taxation. While this is seen as a critical factor in the adoption of share ownership, many companies also take into consideration the benefits to their employees. Rosen et al (1986) reported that over 57% of companies in their study agreed that making employees owners has benefits aside from the tax incentives, such as increasing organisational commitment and providing indirect remuneration to employees, even though they would not set up the plan if tax incentives did not exist.
Share Option Schemes
An option scheme gives the employee the opportunity to purchase stock in their company at a set price at any time up to a specified date. Thus, the scheme works to "fix" the price payable for shares. For example, if an option is granted when the share price is $5, and the stock appreciates in value to $10, the employee can still purchase shares for $5. As this method of profit-sharing can be very valuable to the employee, and involves a minimum of risk, the granting of share options is usually reserved as a reward, or as part of the remuneration package for senior employees.

Sale to employees through share price discount
Aside from more formalised schemes for share ownership, many companies make stock available to their employees through a discount on the market share price. This provides a direct incentive for workers to claim a stake in their company more realistically within their means. The strength of this incentive, however, would depend on the size of the discount.

In New Zealand, tax legislation passed in 1976 allows companies to loan money to employees in order to purchase shares in their organisation at a discounted price. This section of the Income Tax Act potentially benefits workers in that the interest free loan is not classed as assessable income and therefore is non-taxable. The company also receives some benefit to the extent that an interest deduction can be claimed on the money advanced. In one of the few investigations into the existence of share schemes in New Zealand, Firth et al (1987) report that 51 schemes were approved under the Income Tax Act 1976 by the Inland Revenue Department between 1976 and 1985 for the 212 companies listed on the New Zealand Stock Exchange. Approval for the scheme, however, does not necessarily guarantee its implementation. The lack of research into employee ownership in New Zealand precludes a more detailed discussion of the types of schemes which operate in New Zealand companies.

The following chapter outlines some of the theories of employee ownership and the ways in which it is thought to benefit companies which operate ownership schemes. Chapter 3 provides examples of research into the effects of employee share ownership
upon employee attitudes and behaviour, and company performance. Chapter 4 and 5 introduce the rationale, hypotheses and method of the present study. Results of the present study are described in Chapter 6, and Chapter 7 discusses the results, and employee ownership in general, and suggests directions for future research.